



WIRE & WIRE PRODUCTS

ESTABLISHED IN 1964



**Interim
Unaudited Consolidated
Financial Statements
Q3 2019**

Since 1964, Tree Island Steel Ltd. has been making products from steel wire for a diverse range of customers for industrial, construction, agricultural, and specialty applications.

Our products include concrete reinforcing mesh, fencing, galvanized wire, bright wire, a broad array of fasteners, stucco reinforcing products, and other fabricated wire products. We market these products under the Tree Island®, Halsteel®, True Spec®, K-Lath®, TI Wire® and ToughStrand® brand names.

Listed on the Toronto Stock Exchange (“TSX”), our shares trade under the symbol TSL.

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SHAREHOLDER INFORMATIONback cover



Mixed loads for shipment to distributors.

INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2019 and 2018

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102 “Continuous Disclosure Obligations”, Part 4, Subsection 4.3(3a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim condensed consolidated financial statements of Tree Island Steel have been prepared by and are the responsibility of Tree Island Steel’s management.

Tree Island Steel’s independent auditor, KPMG LLP, has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity’s auditor.

October 24, 2019

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(\$'000 unless otherwise stated)

| | As at September 30, 2019 | December 31, 2018 |
|---|-----------------------------|----------------------|
| Cash | 1,476 | 1,277 |
| Accounts receivable (Note 5) | 26,242 | 24,128 |
| Inventories (Note 6) | 65,924 | 81,619 |
| Prepaid and other current assets | 4,620 | 4,013 |
| Income taxes recoverable | 110 | - |
| Current assets | 98,372 | 111,037 |
| Property, plant and equipment (Note 7) | 45,899 | 47,230 |
| Right-of-use assets (Note 3) | 29,835 | - |
| Other non-current assets | 117 | 182 |
| Total assets | 174,223 | 158,449 |
| Senior credit facility (Note 8.1) | 42,040 | 49,797 |
| Accounts payable and accrued liabilities | 23,622 | 22,017 |
| Income taxes payable | - | 171 |
| Other current liabilities | 263 | 346 |
| Dividends payable | 577 | 584 |
| Current portion of long-term borrowing (Notes 8.2, 9) | 4,274 | 4,980 |
| Current portion of lease liabilities (Note 3) | 1,644 | - |
| Current liabilities | 72,420 | 77,895 |
| Senior term loans (Note 8.2) | 9,776 | 11,349 |
| Long-term debt (Note 9) | 4,209 | 4,922 |
| Long-term lease liabilities (Note 3) | 31,395 | - |
| Other non-current liabilities | 784 | 2,426 |
| Deferred income tax liability | 3,231 | 3,231 |
| Total liabilities | 121,815 | 99,823 |
| Shareholders' equity | 52,408 | 58,626 |
| Total liabilities and shareholders' equity | 174,223 | 158,449 |

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

Approved on behalf of Tree Island Steel Ltd.

[Signed]
"Amar S. Doman"
Chairman of the Board of Directors

[Signed]
"Dale R. Maclean"
Director, President and Chief Executive Officer

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS*(\$'000 unless otherwise stated)*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-------------|------------------------------------|-------------|
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| Sales (Note 5) | 49,701 | 55,846 | 155,261 | 190,424 |
| Cost of sales (Note 6) | (43,513) | (48,014) | (136,361) | (165,691) |
| Depreciation | (1,565) | (903) | (4,611) | (2,589) |
| Gross profit | 4,623 | 6,929 | 14,289 | 22,144 |
| Selling, general and administrative expenses | (3,762) | (4,379) | (11,790) | (12,714) |
| Operating income | 861 | 2,550 | 2,499 | 9,430 |
| Foreign exchange gain (loss) | 70 | (77) | (186) | 298 |
| Gain (loss) on property, plant and equipment | (3) | (2) | - | 2 |
| Restructuring and other expenses | (215) | (39) | (482) | (104) |
| Changes in financial liabilities at fair value | - | (123) | - | (89) |
| Financing expenses (Note 10) | (1,111) | (850) | (3,590) | (2,492) |
| Income (loss) before income taxes | (398) | 1,459 | (1,759) | 7,045 |
| Current income tax recovery (expense) (Note 13) | - | (311) | (231) | (311) |
| Deferred income tax recovery (expense) (Note 13) | 39 | (125) | (1) | (1,814) |
| Net income (loss) | (359) | 1,023 | (1,991) | 4,920 |
| Net income (loss) per share (Note 17) | (0.01) | 0.03 | (0.07) | 0.17 |
| Dividends per share | 0.02 | 0.02 | 0.06 | 0.06 |
| Weighted average number of shares (Note 17) | 29,162,348 | 29,327,529 | 29,107,774 | 29,473,611 |

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*(\$'000 unless otherwise stated)*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-------------|------------------------------------|-------------|
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| Net income (loss) for the year | (359) | 1,023 | (1,991) | 4,920 |
| Unrealized gain (loss) on foreign exchange translation | 22 | (101) | (77) | 104 |
| Comprehensive income (loss) | (337) | 922 | (2,068) | 5,024 |

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(\$'000 unless otherwise stated)

| | Shareholders' Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|--------------------------------------|--------------------------|----------------------|--|---------|
| Balance as at December 31, 2018 | 224,715 | (163,354) | (2,735) | 58,626 |
| Adjustment on application of IFRS 16 | - | (1,708) | - | (1,708) |
| Adjusted balance at January 1, 2019 | 224,715 | (165,062) | (2,735) | 56,918 |
| Repurchase of shares | (96) | - | - | (96) |
| Net income | - | (1,095) | - | (1,095) |
| Dividends | - | (583) | - | (583) |
| Other comprehensive income (loss) | - | - | (51) | (51) |
| Balance as at March 31, 2019 | 224,619 | (166,740) | (2,786) | 55,093 |
| Repurchase of shares | (594) | - | - | (594) |
| Net income | - | (535) | - | (535) |
| Dividends | - | (577) | - | (577) |
| Other comprehensive income (loss) | - | - | (34) | (34) |
| Balance as at June 30, 2019 | 224,025 | (167,852) | (2,820) | 53,353 |
| Repurchase of shares | (31) | - | - | (31) |
| Net income | - | (359) | - | (359) |
| Dividends | - | (577) | - | (577) |
| Other comprehensive income (loss) | - | - | 22 | 22 |
| Balance as at September 30, 2019 | 223,994 | (168,788) | (2,798) | 52,408 |
| Balance as at December 31, 2017 | 225,977 | (163,600) | (3,108) | 59,269 |
| Repurchase of shares | (279) | - | - | (279) |
| Net Income | - | 1,105 | - | 1,105 |
| Dividends | - | (591) | - | (591) |
| Other comprehensive income (loss) | - | - | 105 | 105 |
| Balance as at March 31, 2018 | 225,698 | (163,086) | (3,003) | 59,609 |
| Repurchase of shares | (495) | - | - | (495) |
| Net income | - | 2,792 | - | 2,792 |
| Dividends | - | (587) | - | (587) |
| Other comprehensive income (loss) | - | - | 100 | 100 |
| Balance as at June 30, 2018 | 225,203 | (160,881) | (2,903) | 61,419 |
| Repurchase of shares | (287) | - | - | (287) |
| Net income | - | 1,023 | - | 1,023 |
| Dividends | - | (585) | - | (585) |
| Other comprehensive income (loss) | - | - | (101) | (101) |
| Balance as at September 30, 2018 | 224,916 | (160,443) | (3,004) | 61,469 |

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

INTERIM UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(\$'000 unless otherwise stated)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|----------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| Net income (loss) | (359) | 1,023 | (1,991) | 4,920 |
| Depreciation | 1,565 | 903 | 4,611 | 2,589 |
| Changes in financial liabilities recognized at fair value | - | 123 | - | 89 |
| Loss on property, plant and equipment | 3 | 2 | - | (3) |
| Net financing costs (Note 10) | 1,111 | 850 | 3,590 | 2,492 |
| Deferred income tax expense | (39) | 125 | 1 | 1,814 |
| Exchange revaluation of foreign denominated debt (Notes 8.2, 9) | 123 | (137) | (342) | 297 |
| Working capital adjustments | | | | |
| Accounts receivable | 1,998 | 4,806 | (2,115) | (5,260) |
| Inventories | 205 | (15,414) | 15,696 | (20,567) |
| Accounts payable and accrued liabilities | 4,557 | 882 | 602 | 10,308 |
| Prepaid expenses | 1,767 | (534) | 99 | (1,655) |
| Income and other taxes | (333) | 311 | (235) | 311 |
| Other | (587) | 181 | (227) | (97) |
| Net cash provided by (used in) operating activities | 10,011 | (6,879) | 19,689 | (4,762) |
| Proceeds on disposal of property, plant and equipment | - | 4 | - | 4 |
| Purchase of property, plant and equipment | (681) | (1,082) | (1,619) | (5,569) |
| Net cash used in investing activities | (681) | (1,078) | (1,619) | (5,565) |
| Term loans – advances (repayment), net (Note 8.2) | (492) | 3,927 | (1,479) | 3,055 |
| Repayment of long-term debt (Note 9) | (734) | (468) | (1,776) | (1,392) |
| Payment of lease liabilities (Note 3) | (433) | - | (1,306) | - |
| Other financing liabilities | (13) | 293 | (35) | 441 |
| Lease interest paid (Note 3, 10) | (354) | - | (1,069) | - |
| Other interest paid | (599) | (574) | (1,944) | (1,705) |
| Deferred financing fees | - | (183) | (39) | (183) |
| Advance on (repayment of) senior revolving facility | (5,539) | 6,868 | (7,756) | 13,731 |
| Dividend paid | (577) | (587) | (1,744) | (1,771) |
| Repurchase of common shares | (31) | (287) | (721) | (1,061) |
| Net cash provided by (used in) financing activities | (8,772) | 8,989 | (17,869) | 11,115 |
| Effect of exchange rate change on cash | 2 | (14) | (2) | 17 |
| Increase (decrease) in cash | 560 | 1,018 | 199 | 805 |
| Cash - beginning of period | 916 | 1,438 | 1,277 | 1,651 |
| Cash - end of period | 1,476 | 2,456 | 1,476 | 2,456 |

See accompanying Notes to the Interim Unaudited Condensed Consolidated Financial Statements

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the periods ended September 30, 2019 and 2018

1 NATURE OF BUSINESS

These consolidated financial statements of Tree Island Steel Ltd. ("Tree Island Steel" or the "Company") for the quarter ended September 30, 2019 were authorized for issue in accordance with a resolution of the Board of Directors on October 24, 2019.

Tree Island Steel is the successor to Tree Island Wire Income Fund and was incorporated under the laws of Canada on August 2, 2012 to affect the conversion from an income trust to a corporate entity. The units of Tree Island Wire Income Fund were converted into common shares of the Company ("Shares") upon conversion. The Company is headquartered at 3933 Boundary Road, Richmond, British Columbia, Canada and the Shares are publicly traded on the Toronto Stock Exchange ("TSX") under the symbol TSL.

Tree Island Steel owns 100% of the Shares of Tree Island Industries Ltd. ("TI Canada") (collectively "Tree Island"). TI Canada supplies a diverse range of steel wire and fabricated steel wire products to customers in Canada, the United States, and internationally.

2 BASIS OF PREPARATION

The interim condensed consolidated financial statements as at and for nine months ended September 30, 2019 have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". They should be read in conjunction with the annual consolidated financial statements and the notes thereto for the year ended December 31, 2018 and do not include all information required for the full annual financial statements. Certain comparative information has been reclassified to conform to the presentation adopted during the period.

3 SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The accounting policies, methods of application and critical judgements and estimates used in the preparation of these unaudited condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements as at December 31, 2018, except for the adoption of new standards effective as of January 1, 2019.

3.1 CHANGES IN ACCOUNTING POLICIES

IFRS 16 LEASES

Tree Island has initially adopted IFRS 16 Leases from January 1, 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, Tree Island, as a lessee, has recognized right-of-use assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments.

Tree Island adopted IFRS 16 using the modified retrospective approach on January 1, 2019. Under this method, the cumulative effect of initially applying the standard is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated and is presented as previously reported under IAS 17 and related interpretations.

On transition, Tree Island elected to apply the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases under IAS 17. Upon adoption of IFRS 16, Tree Island applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by Tree Island.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended September 30, 2019 and 2018

Tree Island and its subsidiaries applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Applied the leases of low value exemption to leases that are considered of low value, with a threshold of below \$5 thousand;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

3.2 SUMMARY OF NEW ACCOUNTING POLICIES

RIGHT-OF-USE ASSETS

Tree Island recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is presented in investment property. Tree Island does not have any right-of-use asset that meets the definition of an investment property. The right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with Tree Island's accounting policies.

LEASE LIABILITIES

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Tree Island's incremental borrowing rate. Generally, Tree Island uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Tree Island has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether Tree Island is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

SHORT-TERM LEASES AND LEASES OF LOW-VALUE

Tree Island applied the short-term lease recognition exemption to its short-term leases of machinery and equipment which have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Tree Island also applied the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value, with a threshold of below \$5 thousand. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

TRANSITION TO IFRS 16

Tree Island entered into lease contracts for real estate, machinery, vehicles and other equipment. Before the adoption of IFRS 16, Tree Island classified each of its leases at the inception date as either a finance lease or an operating lease.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the periods ended September 30, 2019 and 2018

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

| | <i>(\$'000 unless otherwise stated)</i> |
|---|---|
| Operating lease commitments as at December 31, 2018 | 31,169 |
| Weighted average incremental borrowing rate as at January 1, 2019 | 4.2% |
| Discounted operating lease commitments at January 1, 2019 | 23,429 |
| Less: | |
| Recognition exemption for short-term leases | (8) |
| Recognition exemption for leases of low-value assets | (35) |
| Add: | |
| Extension options reasonably certain to be exercised and other transitional adjustments | 10,172 |
| Lease liabilities as at January 1, 2019 | <u>33,558</u> |

As at January 1, 2019, lease liabilities include an adjustment for \$0.9 million, which was previously recorded in other non-current liabilities as at December 31, 2018.

IMPACTS FOR THE PERIOD

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, Tree Island recognized \$29.8 million of right-of-use assets and \$33.0 million of lease liabilities as at September 30, 2019.

In relation to those leases under IFRS 16, Tree Island has recognized depreciation and interest costs, instead of operating lease expense. During the nine month period ended September 30, 2019, Tree Island recognized \$2.0 million of depreciation and \$1.1 million of interest costs from these leases.

Below is a table of the carrying amounts of Tree Island's right-of-use assets and lease liabilities and the related movements during the period:

(\$'000 unless otherwise stated)

| | Land & buildings | Machinery & equipment | Total right-of-use assets |
|------------------------------|------------------|--------------------------|------------------------------|
| Cost | | | |
| As at January 1, 2019 | 33,580 | 1,512 | 35,092 |
| Additions | 435 | 1,076 | 1,511 |
| Disposals | - | (23) | (23) |
| Foreign exchange translation | (727) | (27) | (754) |
| As at September 30, 2019 | <u>33,288</u> | <u>2,538</u> | <u>35,826</u> |
| Depreciation and impairment | | | |
| As at January 1, 2019 | (3,460) | (643) | (4,103) |
| Depreciation for the period | (1,705) | (281) | (1,986) |
| Disposals | - | 23 | 23 |
| Foreign exchange translation | 61 | 14 | 75 |
| As at September 30, 2019 | <u>(5,104)</u> | <u>(887)</u> | <u>(5,991)</u> |
| Carrying value as at | | | |
| January 1, 2019 | 30,120 | 869 | 30,989 |
| September 30, 2019 | 28,184 | 1,651 | 29,835 |

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the periods ended September 30, 2019 and 2018

(\$'000 unless otherwise stated)

| | Land & buildings | Machinery & equipment | Total lease liability |
|--|------------------|--------------------------|-----------------------|
| Lease liability | | | |
| As at January 1, 2019 | 32,670 | 888 | 33,558 |
| New contracts and renewals | 435 | 1,174 | 1,609 |
| Interest expense | 1,011 | 49 | 1,060 |
| Payment of lease liability | (1,984) | (457) | (2,441) |
| Foreign exchange translation | (732) | (15) | (747) |
| Lease liability as at September 30, 2019 | 31,400 | 1,639 | 33,039 |
| Less: current portion | (1,217) | (427) | (1,644) |
| Total | 30,183 | 1,212 | 31,395 |

4 FUTURE IFRS STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Tree Island prepares its financial statements in accordance with IFRS standards. At this time, new standards, interpretations or amendments to existing accounting standards are either not applicable or not expected to have a significant impact on Tree Island's consolidated financial statements.

5 REVENUE AND ACCOUNTS RECEIVABLE

Revenue is inclusive of the cost of freight associated with those sales to customers where the Company arranges the freight. For the nine months ended September 30, 2019, this amounts to \$9.1 million (\$12.4 million as of September 30, 2018).

Below is the composition and aging of Tree Island's accounts receivable:

(\$'000 unless otherwise stated)

| | As at September 30, 2019 | As at December 31, 2018 |
|---------------------------------|-----------------------------|----------------------------|
| Current | 23,281 | 20,945 |
| 30 - 60 days past due | 1,280 | 1,657 |
| 61 - 90 days past due | 493 | 784 |
| Over 91 days past due | 1,435 | 1,066 |
| Total accounts receivable | 26,489 | 24,452 |
| Allowance for doubtful accounts | (247) | (324) |
| Net accounts receivable | 26,242 | 24,128 |

Accounts receivable are non-interest bearing and are generally due on 30-day to 90-day terms. The maximum credit risk that Tree Island was exposed to by way of its accounts receivable is equal to the net amount of \$26.2 million as at September 30, 2019 (\$24.1 million as at December 31, 2018).

At the end of each reporting period, a review of the allowance for bad and doubtful accounts is performed. It is an assessment of the expected credit loss associated with trade accounts receivable after the consolidated statement of financial position date. The assessment is made by reference to age, status and risk of each receivable, current economic conditions and historical information. The trade accounts receivable balance is reduced through the use of the allowance for doubtful accounts and the amount of the loss is recognized in the consolidated statement of operations. Reversals to the allowance for doubtful accounts occur when previously allowed for trade accounts receivable are collected. Individual trade accounts receivable, together with any associated allowance previously

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the periods ended September 30, 2019 and 2018

recognized, are written off when there is no realistic prospect of future recovery. Accounts receivable with related parties are discussed in Note 12.

The following table represents a summary of the movement of the allowance for doubtful accounts:

(\$'000 unless otherwise stated)

| | As at September 30, 2019 | As at December 31, 2018 |
|---------------------------------------|-----------------------------|----------------------------|
| Opening balance – beginning of period | 324 | 338 |
| Additions during the period | 21 | 134 |
| Reversals during the period | (16) | 2 |
| Payments | (15) | (19) |
| Write-offs during the period | (72) | (143) |
| Foreign exchange revaluation | 5 | 12 |
| Closing balance – end of period | <u>247</u> | <u>324</u> |

See Note 15.1 on credit risk of trade receivables to understand how credit quality of accounts receivable that are neither past due nor impaired are managed and measured.

6 INVENTORIES

Tree Island had the following categories of inventory:

(\$'000 unless otherwise stated)

| | As at September 30, 2019 | As at December 31, 2018 |
|-------------------------------------|-----------------------------|----------------------------|
| Raw materials | 21,687 | 27,599 |
| Finished and semi-finished products | 30,501 | 38,558 |
| Consumable supplies and spare parts | 13,736 | 15,462 |
| Total inventory | <u>65,924</u> | <u>81,619</u> |

For the three and nine month periods ended September 30, 2019 and 2018, Tree Island recognized, in income, inventory costs for the following:

(\$'000 unless otherwise stated)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------------|-------------------------------------|---------------|------------------------------------|----------------|
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| Opening inventory | 66,129 | 65,117 | 81,619 | 59,992 |
| Raw material purchases | 29,595 | 46,812 | 78,774 | 133,778 |
| Finished goods purchased for resale | 901 | 2,190 | 4,120 | 6,051 |
| Conversion costs | 12,812 | 14,425 | 37,772 | 46,400 |
| Closing inventory | (65,924) | (80,530) | (65,924) | (80,530) |
| Cost of sales | <u>43,513</u> | <u>48,014</u> | <u>136,361</u> | <u>165,691</u> |

At each period end, the ending inventories on hand are reviewed to determine if a write down to net realizable value is required. Based on this review, it was determined that no write downs were necessary in the three and nine

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the periods ended September 30, 2019 and 2018

months period ended September 30, 2019 and 2018. The reserve for slow moving inventory as at September 30, 2019 was \$1.2 million (\$1.8 million at September 30, 2018).

7 PROPERTY, PLANT AND EQUIPMENT

The carrying value of property, plant and equipment is reviewed each reporting period. For the purposes of testing for impairment, or the reversal of impairment, Tree Island Steel's assets are grouped and tested at the CGU level. Tree Island considers both qualitative and quantitative factors when determining whether an asset may be impaired, or when a reversal of impairment is required. Where the carrying value of the assets is not expected to be recoverable from future cash flows, they are written down to their recoverable amount. Tree Island has noted no indicators of impairment for this reporting period.

From time to time, we make investments to update, replace or make additions to our existing capital assets, which includes, but is not limited to, the buildings we occupy and capital equipment. These investments are in our normal course of business activity. For capital assets, we have committed to purchase but have not yet received the amounts remaining to be paid are recognized as purchase commitments (refer to Note 18.2).

The net book value of the Company's property, plant and equipment is detailed below:

(\$'000 unless otherwise stated)

| | Land & Improvement | Building & Improvement | Machinery & Equipment | Capital in Progress | Total |
|------------------------------------|-----------------------|---------------------------|--------------------------|------------------------|--------|
| Cost | | | | | |
| As at December 31, 2017 | 9,695 | 44,326 | 30,560 | 3,909 | 88,490 |
| Additions | - | 608 | 2,818 | 5,299 | 8,725 |
| Disposals | - | (80) | (181) | - | (261) |
| Foreign exchange translation | 174 | 806 | 651 | 141 | 1,772 |
| As at December 31, 2018 | 9,869 | 45,660 | 33,848 | 9,349 | 98,726 |
| Additions | - | 1,402 | 6,774 | (6,207) | 1,969 |
| Disposals | - | - | (279) | - | (279) |
| Foreign exchange translation | (63) | (298) | (434) | (198) | (993) |
| As at September 30, 2019 | 9,806 | 46,764 | 39,909 | 2,944 | 99,423 |
| Depreciation and impairment | | | | | |
| As at December 31, 2017 | 31 | 32,231 | 14,538 | - | 46,800 |
| Depreciation for the period | 16 | 1,271 | 2,206 | - | 3,493 |
| Disposals | - | (80) | (134) | - | (214) |
| Foreign exchange translation | (5) | 389 | 1,033 | - | 1,417 |
| As at December 31, 2018 | 42 | 33,811 | 17,643 | - | 51,496 |
| Depreciation for the period | 12 | 1,024 | 1,537 | - | 2,573 |
| Disposals | - | - | (156) | - | (156) |
| Foreign exchange translation | (2) | (147) | (240) | - | (389) |
| As at September 30, 2019 | 52 | 34,688 | 18,784 | - | 53,524 |
| Net book value as at | | | | | |
| December 31, 2018 | 9,827 | 11,849 | 16,205 | 9,349 | 47,230 |
| September 30, 2019 | 9,754 | 12,076 | 21,125 | 2,944 | 45,899 |

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the periods ended September 30, 2019 and 2018

8 SENIOR CREDIT FACILITY

On July 1, 2018, the Company renewed its senior banking facility with Wells Fargo Capital Finance Corporation Canada (“Wells Fargo”). The five-year senior secured committed banking facility (the “Senior Credit Facility”) which matures in June of 2023, may be used for Tree Island’s financing requirements in Canadian and/or U.S. dollars, and comprises of the following:

- \$60 million of revolving credit facility;
- \$10 million “Fixed Asset Term Loan” applied against existing term loans; and
- \$10 million “Capex Term Loan” to finance future capital expenditures.

8.1 SENIOR CREDIT FACILITY

The amount advanced under the Senior Credit Facility at any time is limited to a defined percentage of inventories, accounts receivable, machinery and equipment, and real estate, less certain reserves. The Senior Credit Facility is secured by a first charge over Tree Island’s assets supported by the appropriate guarantees, pledges and assignments, and requires that certain covenants be met by Tree Island.

The Senior Credit Facility includes a \$10.0 million Letter of Credit sub-facility which enables TI Canada and TI USA to open documentary and standby letters of credit for raw material purchases. There was a \$40 thousand Letter of Credit outstanding as at September 30, 2019.

The amount available under the revolving portion of the Senior Credit Facility is limited to the amount of the calculated borrowing base, less issued Letters of Credit. The borrowing base is calculated as 90% of eligible receivables, plus the lesser of (a) 90% of the net orderly liquidation value of inventory and (b) 70% of eligible inventory.

Interest payable on funds borrowed in Canadian currency is at variable rates based on the Canadian Dollar Offered Rate (“CDOR”) for Canadian dollar banker’s acceptance. Interest payable on funds borrowed in U.S. currency is at variable rates based on the London Interbank Offered Rate (“LIBOR”) for U.S. dollar deposits.

The following amounts are outstanding under the revolving portion of the Senior Credit Facility:

(\$’000 unless otherwise stated)

| | As at September 30, 2019 | As at December 31, 2018 |
|---|-----------------------------|----------------------------|
| Revolving portion of the Senior Credit Facility | 42,040 | 49,797 |
| Deferred financing costs | (117) | (182) |
| Total | <u>41,923</u> | <u>49,615</u> |

The revolving portion of the Senior Credit Facility denominated in U.S. dollars as at September 30, 2019 is \$12.0 million (\$21.4 million at September 30, 2018).

Deferred financing costs are included in other non-current assets on the statement of consolidated financial position.

The Senior Credit Facility has financial tests and other covenants with which the Company and its subsidiaries must comply, the primary one being based on the remaining funds within the Senior Credit Facility that is available (“Availability Test”). Only if the Availability Test falls below a certain threshold then other covenants, which include a rolling four quarters defined fixed charge coverage ratio of 1:1, are tested. As well, the Senior Credit Facility contains restrictive covenants that limit the discretion of the Company’s management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company’s operating subsidiaries to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the periods ended September 30, 2019 and 2018

certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

As at September 30, 2019, the availability was in excess of the Availability Test and the Company was in compliance with its financial covenants on the Senior Credit Facility.

8.2 SENIOR TERM LOANS

Under the terms of the Senior Credit Facility, the Company has designated portions up to a total of \$20 million as two term loans denominated in either Canadian or U.S. dollars, and is available for existing machinery and equipment and future capital expenditures. The existing term debts applied against the Senior Credit Facility was incorporated into a single term loan of \$10 million, denominated in Canadian dollars on July 1, 2018, referred to as “Fixed Asset Term Loan”. An additional \$10 million is available to finance future capital expenditures, to be denominated in either Canadian or U.S. dollars and referred to as “Capex Term Loans”. On September 24, 2018, \$3.8 million was applied against the Capex Term Loan of the Senior Credit Facility for financing a new concrete mesh machine in our U.S. Operations.

The following amounts are outstanding under the Senior Term Loans:

(\$'000 unless otherwise stated)

| | As at September 30, 2019 | As at December 31, 2018 |
|---|-----------------------------|----------------------------|
| Senior term loans - beginning of period | 13,335 | 10,546 |
| Advances | - | 3,758 |
| Foreign exchange revaluation | (110) | 202 |
| Payments | (1,478) | (1,171) |
| Senior term loans - end of period | 11,747 | 13,335 |
| Less: current portion | (1,970) | (1,986) |
| Total | <u>9,777</u> | <u>11,349</u> |

9 LONG-TERM DEBT

In June of 2012, the Company entered into long-term debt agreements with a trade creditor. The repayment schedule of the long-term debt extends to June 2028 with principal payments over a 10 year amortization period. The interest is non-compounding interest at 4% and commenced accruing June 2017 and will become payable monthly over 4 years commencing June 2024. Principal payments, which started in 2009, are monthly in the amounts of US \$100k in years 1 and 2, US \$110k in years 3 and 4, US \$120k years 5, 6 and 7, and US \$190k in years 8, 9,10 and \$90k in years 11, 12 and 13 and there are provisions for making additional principal payments. Present value of the debt was determined using discounted cash flows and a credit adjusted discount rate of 9%. The discount rate, together with the stated interest, comprises the debt discount. Using the effective interest rate method, the debt discount is amortized as accretion and charged to interest expense over the term of the amended long-term debt agreements.

The amounts owing under the long-term debts are denominated in U.S. dollars.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the periods ended September 30, 2019 and 2018

The elements of the long-term debt are listed below:

(\$'000 unless otherwise stated)

| | As at September 30, 2019 | As at December 31, 2018 |
|------------------------------|-----------------------------|----------------------------|
| Beginning of period | 7,916 | 8,187 |
| Payments | (1,776) | (1,873) |
| Foreign exchange revaluation | (231) | 671 |
| Accretion of debt discount | 604 | 931 |
| End of period | 6,513 | 7,916 |
| Less: current portion | (2,304) | (2,994) |
| Net long-term debt | <u>4,209</u> | <u>4,922</u> |

10 FINANCING EXPENSES

(\$'000 unless otherwise stated)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-------------|------------------------------------|--------------|
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| Non-cash accretion of debt discount and interest on long term debt | 178 | 229 | 603 | 704 |
| Interest on senior credit facility | 388 | 412 | 1,272 | 1,074 |
| Interest on lease liability <i>(Note 3)</i> | 354 | - | 1,070 | - |
| Other interest and financing costs | 182 | 152 | 618 | 634 |
| Amortization of deferred financing costs | 9 | 57 | 27 | 80 |
| Total | <u>1,111</u> | <u>850</u> | <u>3,590</u> | <u>2,492</u> |

11 SHAREHOLDERS' CAPITAL

Tree Island is authorized to issue an unlimited number of Shares. The Shares have no par value. There were no Shares issued in the period and 352,013 Shares were repurchased (totaling \$0.7 million at an average price of \$2.05 per Share) and cancelled in the nine months ended September 30, 2019. Shares issued and outstanding are as follows:

(\$'000 except for Shares)

| | Shares | Gross | Issuance Cost ⁷ | Net |
|--|-------------------|----------------|-------------------------------|----------------|
| Shareholders' capital - December 31, 2017 | 29,649,799 | 237,377 | 11,400 | 225,977 |
| Repurchase of common shares | (466,149) | (1,262) | - | (1,262) |
| Shareholders' capital - December 31, 2018 | 29,183,650 | 236,115 | 11,400 | 224,715 |
| Repurchase of common shares | (352,013) | (721) | - | (721) |
| Shareholders' capital - September 30, 2019 | <u>28,831,637</u> | <u>235,394</u> | <u>11,400</u> | <u>223,994</u> |

⁷ Issuance costs were incurred as a result of the November 2002 Initial Public Offering and October 2004 Secondary Offering.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the periods ended September 30, 2019 and 2018

11.1 NORMAL COURSE ISSUER BID

The Company had a normal course issuer bid (the “Bid”) effective from September 21, 2018 to September 20, 2019 to purchase up to 1,460,000 Shares. For the period January 1, 2019 to September 30, 2019 the Company purchased 352,013 Shares under the Bid at a total cost of \$0.7 million (at an average price of \$2.05 per Share). All 352,013 Shares were cancelled prior to September 30, 2019.

12 RELATED PARTY TRANSACTIONS

12.1 TRANSACTIONS WITH ASSOCIATED COMPANIES

The Futura Corporation (“Futura”) is considered to be a related party to the Company because of its Share ownership interest and the fact that Mr. Doman, the sole shareholder and president of Futura, and Mr. Rosenfeld, the Executive Vice President of Futura, sit on the Board of Directors.

Based on Tree Island Steel’s outstanding Shares as at October 24, 2019, Futura owns 30.6% of the fully diluted Shares of the Company.

In addition, Mr. Doman is Chairman and CEO of CanWel Building Materials Group Ltd. (“CanWel”). For the three and nine months ended September 30, 2019, Tree Island sold, net of rebates, approximately \$0.5 million and \$2.3 million respectively (\$0.7 million and \$3.1 million in 2018) of goods to CanWel and trade accounts receivable owing from CanWel as at September 30, 2019 is approximately \$0.1 million (approximately \$0.2 million in 2018). Outstanding trade accounts receivable from CanWel at period end are unsecured, interest free and settlement occurs in cash.

12.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Included in the definition of key management for purposes of disclosure of related party transactions are members of Board of Directors and officers of Tree Island Steel. Amounts for key management personnel for the three and nine months ended September 30, 2019 were approximately \$0.5 million and \$1.7 million respectively (approximately \$0.5 million and \$1.5 million in 2018) which includes wages, salaries and social security contributions, paid annual and sick leave, vehicle costs, and bonuses. It also includes directors’ fees paid to members of the Board.

13 INCOME TAXES

A provision for income taxes is recognized for Tree Island Steel, TII and its wholly owned subsidiaries.

13.1 INCOME TAX EXPENSE

The income tax expense is divided between current and deferred taxes as follows:

(\$’000 unless otherwise stated)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|--------------|------------------------------------|----------------|
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| Current tax expense | - | (311) | (231) | (311) |
| Deferred tax (expense) recovery | 39 | (125) | (1) | (1,814) |
| Total recorded in the Statement of Operations | <u>39</u> | <u>(436)</u> | <u>(232)</u> | <u>(2,125)</u> |

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the periods ended September 30, 2019 and 2018

14 FINANCIAL INSTRUMENTS

14.1 FAIR VALUE OF FINANCIAL INSTRUMENTS

Tree Island records certain of its financial instruments at fair value using various techniques. These include estimates of fair values based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as discounted cash flow analysis and option pricing models, using, to the extent possible, observable market-based inputs.

The fair values of the financial assets and financial liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash, accounts receivable, the revolving portion of the Senior Credit Facility and accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term nature of these instruments and interest rates being variable for the senior credit facility;
- Fair value on the Company's Senior Term Loans and Long-Term Debt are based on estimated market interest rate on similar borrowings. The carrying value of the Senior Term Loans approximates fair value as the interest rates approximate market. A 1% change in the market interest rate would change the fair value of Long-Term Debt by \$0.2 million and Senior Term Loans by \$0.1 million;
- Fair value of the commodity purchase contract embedded derivatives are estimated using observable spot rates for zinc; and
- Fair value of the forward exchange forward contracts is estimated using observable foreign exchange spot and forward rates. The Company does not consider interest rates or the credit quality of counterparties as significant inputs to the valuation.
- Fair value on the Company's lease liabilities are based on estimated market interest rate on similar borrowings. The carrying value of the lease liabilities approximates fair value as the interest rates approximate market.

(\$'000 unless otherwise stated)

| | As at | | As at | |
|--|--------------------|----------------|--------------------|---------------|
| | September 30, 2019 | | December 31, 2018 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash and cash investments | 1,476 | 1,476 | 1,277 | 1,277 |
| Accounts receivable | 26,242 | 26,242 | 24,128 | 24,128 |
| Total financial assets | 27,718 | 27,718 | 25,405 | 25,405 |
| Senior revolving facility | 42,040 | 42,040 | 49,797 | 49,797 |
| Accounts payable and accrued liabilities | 23,622 | 23,622 | 22,017 | 22,017 |
| Senior term loans | 11,747 | 11,747 | 13,335 | 13,335 |
| Long-term debt | 6,513 | 6,657 | 7,916 | 7,041 |
| Lease liabilities (Note 3) | 33,039 | 33,039 | - | - |
| Total financial liabilities | 116,961 | 117,105 | 93,065 | 92,190 |

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended September 30, 2019 and 2018

14.2 FAIR VALUE HIERARCHY

The financial instruments have been categorized on a fair value hierarchy based on whether the inputs to those valuation techniques are observable (inputs reflect market data obtained from independent sources) or unobservable (inputs reflect the Company's market assumptions).

The three levels of fair value estimation are:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The only financial estimates carried at fair value are commodity purchase derivatives, which are level 2 financial instruments.

15 RISK EXPOSURE AND MANAGEMENT

Tree Island is exposed to various risks associated with its financial instruments. These risks are categorized as credit risk, liquidity risk and market risk.

15.1 CREDIT RISK

Credit risk consists of credit losses arising in the event of non-payment of accounts receivable of customer accounts. However, the credit risk is minimized through selling to well-established customers of high-credit quality. The credit worthiness of customers is assessed using credit scores supplied by a third party and through direct monitoring of their financial well-being on a continual basis. Management establishes guidelines for customer credit limits and should thresholds in these areas be reached, appropriate precautions are taken to improve collectability. Provisions for potential credit losses (allowance for doubtful accounts) are maintained and any such losses to date have been within management's expectations.

15.2 LIQUIDITY RISK

Liquidity arises from our financial obligations and in the management of our assets, liabilities and capital structure. This risk is managed by regular evaluation of our liquid financial resources to fund current and long-term obligations and to meet its capital commitments in a cost-effective manner.

The main factors that affect liquidity include realized sales prices, production levels, cash production costs, working capital requirements, future capital expenditure requirements, scheduled payments on financial liabilities and lease obligations, credit capacity and expected future debt and equity capital market conditions.

Liquidity requirements are met through a variety of sources including cash balances on hand, cash generated from operations, existing credit facilities, and debt and equity capital markets. Management monitors and manages liquidity risk by preparing annual budgets, monthly projections to the end of the fiscal year and regular monitoring of financial liabilities against the constraints of the available revolving credit facilities.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the periods ended September 30, 2019 and 2018

The table below summarizes the future undiscounted contractual cash flow requirements for financial liabilities (including scheduled interest payments on interest bearing liabilities) as at September 30, 2019 and December 31, 2018:

(\$'000 unless otherwise stated)

| | Carrying Amount | Contractual Cash Flow | Less Than 1 Year | 1 – 2 Years | Greater Than 2 Years |
|--|-----------------|-----------------------|------------------|-------------|----------------------|
| Senior revolving facility | 42,040 | 42,040 | 42,040 | - | - |
| Accounts payable and accrued liabilities | 23,885 | 23,885 | 23,885 | - | - |
| Senior term loans | 11,747 | 11,747 | 1,970 | 3,940 | 5,837 |
| Long-term debt | 6,513 | 9,516 | 2,304 | 3,336 | 3,876 |
| Lease Liability | 33,039 | 49,806 | 2,987 | 2,861 | 43,958 |
| As at September 30, 2019 | 117,224 | 136,994 | 73,186 | 10,137 | 53,671 |
| Senior revolving facility | 49,797 | 49,797 | 49,797 | - | - |
| Accounts payable and accrued liabilities | 22,017 | 22,017 | 22,017 | - | - |
| Senior term loans | 13,335 | 13,335 | 1,986 | 3,972 | 7,377 |
| Long-term debt | 7,916 | 11,616 | 2,994 | 3,028 | 5,594 |
| As at December 31, 2018 | 93,065 | 96,765 | 76,794 | 7,000 | 12,971 |

15.3 FOREIGN CURRENCY RISK

Tree Island's U.S. dollar-denominated cash, accounts receivable, accounts payable and accrued liabilities, Senior Credit Facility and Long-Term Debt are exposed to foreign currency exchange rate risk because the value of these financial instruments will fluctuate with changes in the U.S./Canadian dollar exchange rate. The Company enters into U.S. dollar currency forward contracts for periods consistent with a portion of U.S. dollar currency transaction exposures, generally from one to three months. These are not designated as cash flow, fair value or net investment hedges. As of September 30, 2019, the Company has US \$0.3 million in US dollar currency forward contracts outstanding.

For the period ending September 30, 2019, a \$0.01 increase (decrease) in the Canadian dollar to U.S. dollar exchange rate will increase (decrease) net comprehensive income by \$17 thousand.

15.4 INTEREST RATE RISK

Tree Island is exposed to interest rate risk on its Senior Credit Facility. Interest payable on the funds advanced under the Senior Credit Facility are based on the Canadian interbank bid rates for Canadian dollar banker's acceptance for Canadian dollar denominated borrowings or the London Inter-Market Offered Rate ("LIBOR") for U.S. dollar deposits for U.S. dollar denominated borrowings.

A 1% increase in the interest rates charged on the Senior Credit Facility would increase financing expenses by \$0.4 million annually. Tree Island does not use derivative instruments to manage the interest rate risk.

15.5 RAW MATERIAL PRICE RISK

Tree Island is exposed to changes in the price of the materials used in its production process and, from time to time, enters into contracts to purchase a portion of the zinc to be used. These are not designated as cash flow, fair value or net investment hedges. As at September 30, 2019, the Company had no outstanding zinc forward contracts.

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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16 MANAGEMENT OF CAPITAL

The Company's objectives when managing its capital are:

- To manage capital in a manner that will comply with the financial covenants on the Senior Credit Facility, Senior Term Loan agreements and Long-Term Debt agreements as described further in Notes 8.1, 8.2 and 9.
- To maintain a capital base so as to preserve and enhance investor, creditor, and market confidence and to sustain viability and future development of the business; and

Management manages the capital structure in accordance with these objectives, with considerations given to changes in economic conditions and the risk characteristics of the underlying assets in particular, by closely monitoring cash flows and compliance with external debt covenants. The table below is what management considers capital:

(\$'000 unless otherwise stated)

| | <u>As at September 30, 2019</u> | <u>As at December 31, 2018</u> |
|----------------------------|---------------------------------|--------------------------------|
| Total shareholders' equity | 52,408 | 58,626 |
| Senior revolving facility | 42,040 | 49,797 |
| Senior term loans | 11,747 | 13,335 |
| Long-term debt | 6,513 | 7,916 |
| Lease liability (Note 3) | 33,039 | - |
| Total capital | <u>145,747</u> | <u>129,674</u> |

17 NET INCOME PER SHARE

Basic earnings per Share amounts are calculated by dividing net income for the year by the weighted average number of Shares outstanding during the year.

Diluted earnings per Share amount is calculated by dividing the net income for the year by the weighted average number of Shares outstanding during the year plus the weighted average number of Shares that would be issued on conversion of all the dilutive potential units into Shares. As at September 30, 2019 the Company does not have any instruments issued that could be dilutive.

The company has repurchased and cancelled 352,013 Shares in the nine months ended September 30, 2019 (Note 11).

The following reflects the income and Share data used in the basic and diluted earnings per Share computations:

(\$'000 unless otherwise stated)

| | <u>Three Months Ended</u> <u>September 30,</u> | | <u>Nine Months Ended</u> <u>September 30,</u> | |
|--|---|-------------|--|-------------|
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| Net income (loss) for the period | (359) | 1,023 | (1,991) | 4,920 |
| Weighted average number of shares outstanding: | 29,162,348 | 29,327,529 | 29,107,774 | 29,473,611 |
| Net income (loss) per share (\$/share) | (0.01) | 0.03 | (0.07) | 0.17 |

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the periods ended September 30, 2019 and 2018

18 PROVISIONS AND COMMITMENTS

18.1 LITIGATION AND CLAIMS

From time to time, Tree Island is party to certain legal actions and claims, none of which individually, or in the aggregate, is expected to have a material adverse effect on its financial position, consolidated statement of operations or cash flows.

18.2 PURCHASE COMMITMENTS

As at September 30, 2019, Tree Island's wholly owned subsidiaries have committed to production material purchases (including finished goods) totalling \$28.9 million (\$21.6 million – September 30, 2018) and capital equipment purchase commitments of \$1.6 million (\$0.6 million – September 30, 2018). The committed product material purchases, which are to be delivered in the fourth quarter of 2019 and first quarter of 2020, and capital equipment purchases, which are to be delivered in 2020, are in the normal course of our business activity.

19 SEGMENTED INFORMATION

19.1 MARKET SEGMENTS

Revenues for each group for the three and nine months ended September 30, 2019 and 2018 were as follows:

(\$'000 unless otherwise stated)

| | <u>Three Months Ended September 30,</u> | | <u>Nine Months Ended September 30,</u> | |
|---------------|---|---------------|--|----------------|
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| Industrial | 18,037 | 18,082 | 49,548 | 64,139 |
| Commercial | 13,252 | 15,338 | 40,522 | 40,422 |
| Agricultural | 3,720 | 4,576 | 21,831 | 24,657 |
| Residential | 14,692 | 17,850 | 43,360 | 61,206 |
| Total revenue | <u>49,701</u> | <u>55,846</u> | <u>155,261</u> | <u>190,424</u> |

Tree Island operates primarily within one industry, the steel wire products industry, with no separately reportable operating segments. Tree Island groups its products into the following: Industrial, Agricultural, Commercial Construction, and Residential Construction. No one customer is more than 10% of total revenue.

19.2 GEOGRAPHIC SEGMENTS

The products are sold primarily to customers in the United States and Canada and are attributed to geographic areas based on the location of customers:

(\$'000 unless otherwise stated)

| | <u>Three Months Ended September 30,</u> | | <u>Nine Months Ended September 30,</u> | |
|---------------|---|---------------|--|----------------|
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| United States | 32,199 | 36,773 | 90,922 | 120,003 |
| Canada | 16,057 | 17,872 | 58,660 | 65,389 |
| International | 1,445 | 1,201 | 5,679 | 5,032 |
| Total revenue | <u>49,701</u> | <u>55,846</u> | <u>155,261</u> | <u>190,424</u> |

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Non-current assets for this purpose consist of property, plant and equipment, right-of-use assets recognized on the adoption of IFRS 16 (Note 3) and other non-current assets. These assets are attributed to geographic areas based on the locations of the subsidiary company owning the assets and right-of-use assets.

(\$'000 unless otherwise stated)

| | <u>September 30, 2019</u> | <u>December 31, 2018</u> |
|--------------------------|---------------------------|--------------------------|
| United States | 37,943 | 17,110 |
| Canada | <u>37,908</u> | <u>30,302</u> |
| Total non-current assets | <u><u>75,851</u></u> | <u><u>47,412</u></u> |

With the adoption of IFRS 16 in 2019, right-of-use assets of \$30.9 million were recognized on January 1, 2019 whereas prior year comparatives were not restated to reflect such right-of-use assets (Note 3). As of September 30, 2019, the right-of-use assets are \$29.8 million.

20 UNSOLICITED NON-BINDING ACQUISITION PROPOSAL

Tree Island Steel announced on June 28, 2019 that it had been advised of the intention of The Futura Corporation and Arbutus Distributors Ltd. (together, the "Offerors"), entities controlled by certain directors of the Company, to make an unsolicited non-binding proposal ("Proposal") by way of a plan of arrangement to acquire all of the common shares of the Company not already owned by the Offerors.

The Board of Directors of the Company appointed a special committee of the board made up entirely of directors who were independent of both management and the Offerors (the "Special Committee"). The Special Committee engaged PwC to prepare a formal valuation of the Company and advise on an appropriate response to the Proposal.

On August 31, 2019, the Special Committee was advised by the Offerors of the withdrawal of their Proposal. As a result of the withdrawal of the Proposal by the Offerors, the engagement of the financial adviser to prepare a formal valuation was terminated by the Special Committee before completion of the valuation and the Special Committee was dissolved.

SHAREHOLDER INFORMATION

TREE ISLAND STEEL
LTD.

Board of Directors:

Amar S. Doman –
Chairman of the Board

Dale R. MacLean

Peter Bull

Harry Rosenfeld

Michael Fitch

Sam Fleiser

Theodore A. Leja

Joe Downes

Leadership Team:

Dale R. MacLean
*President and Chief
Executive Officer*

Remy Stachowiak
Chief Operating Officer

Nancy Davies
*Chief Financial Officer and
Vice President, Finance*

Shares:

Market Information

Tree Island Steel Ltd., is
listed on the Toronto Stock
Exchange trading symbol:
TSL.

Registrar and Transfer Agent

Computershare Investor
Services Inc.

Corporate Head Office:

3933 Boundary Road
Richmond, B.C.
Canada, V6V 1T8

Website:

www.treeisland.com

Investor Relations:

Ali Mahdavi
Investor Relations
(416)-962-3300 or
amahdavi@treeisland.com

Auditors:

KPMG LLP
Vancouver, B.C.

